



From: Alex Rofman [REDACTED]
To: Alastair Morse [REDACTED] Ayman Khalil [REDACTED]
CC: Carson Oliver [REDACTED]
BCC:
Subject: Comments to 2014 Deck
Attachments: 2015.01 App Store Business Update for Eddy.key;
Sent: 01/12/2015 11:20:55 PM 0000 (GMT)

Hey guys,

Thanks very much for the quick turnaround on this. I just finished my initial review and have some questions, indicated with a blue text box in the upper right hand corner of certain slides. To the extent you are going to make any edits/revisions, or add slides (per Ayman's message to me earlier today), can you please work from this version? I also made some minor changes to a few slides and the presenter notes.

Thanks,
Alex

PX-2218.1



PX-2218.2

App Store Business Update

2014 (DRAFT)

PX-2218.3

Agenda

Billings

Customers

Top Developers & Apps

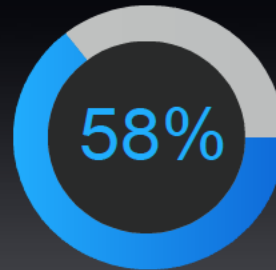
Categories

3

- We'll cover Billings, Customers, Top Developers & Apps and Categories

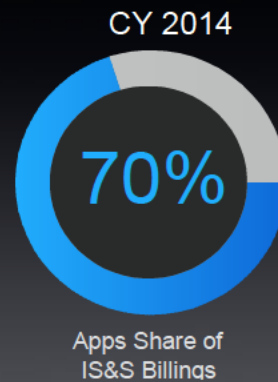
IS&S Billings Mix

CY 2013



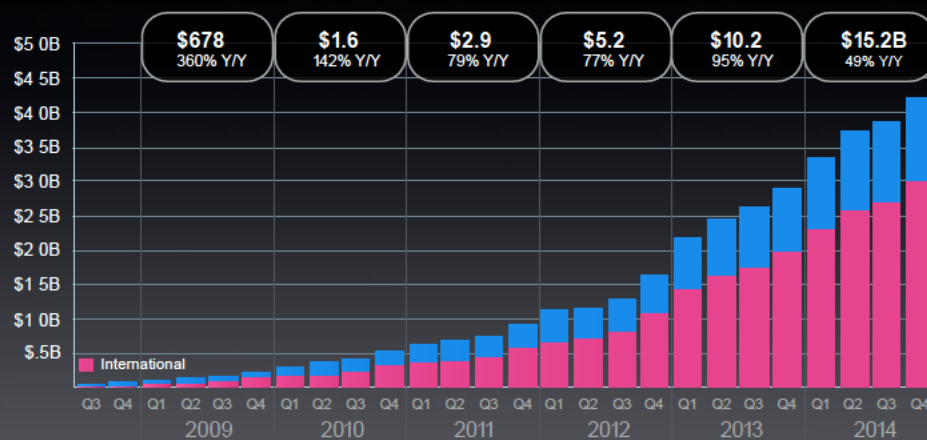
Apps Share of
IS&S Billings

IS&S Billings Mix

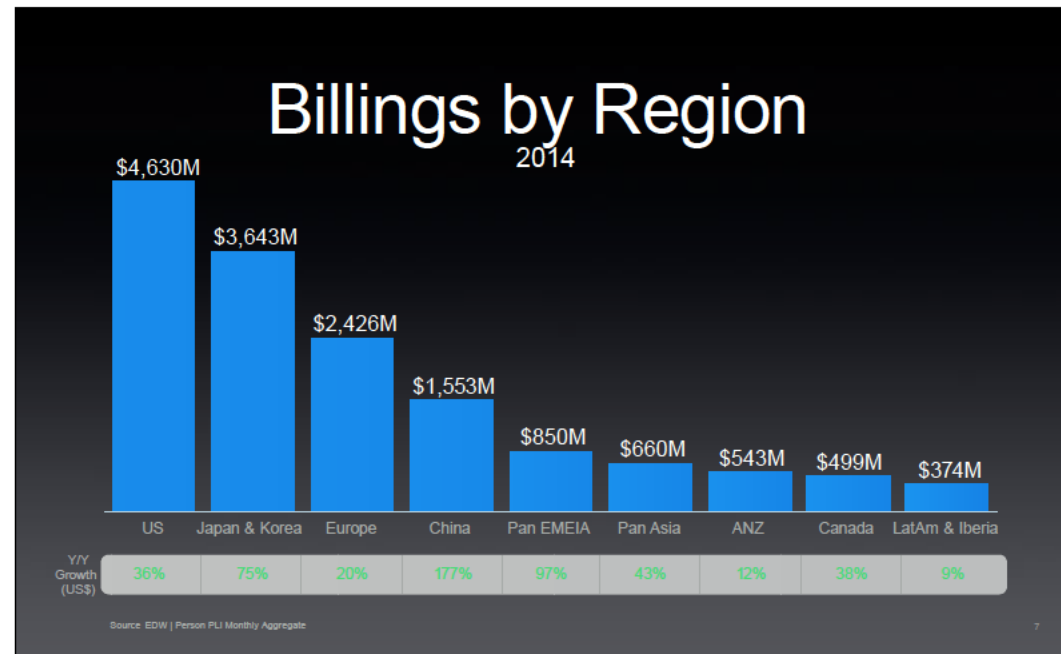


- Over the past year, the share has increased by more than 10 percentage points

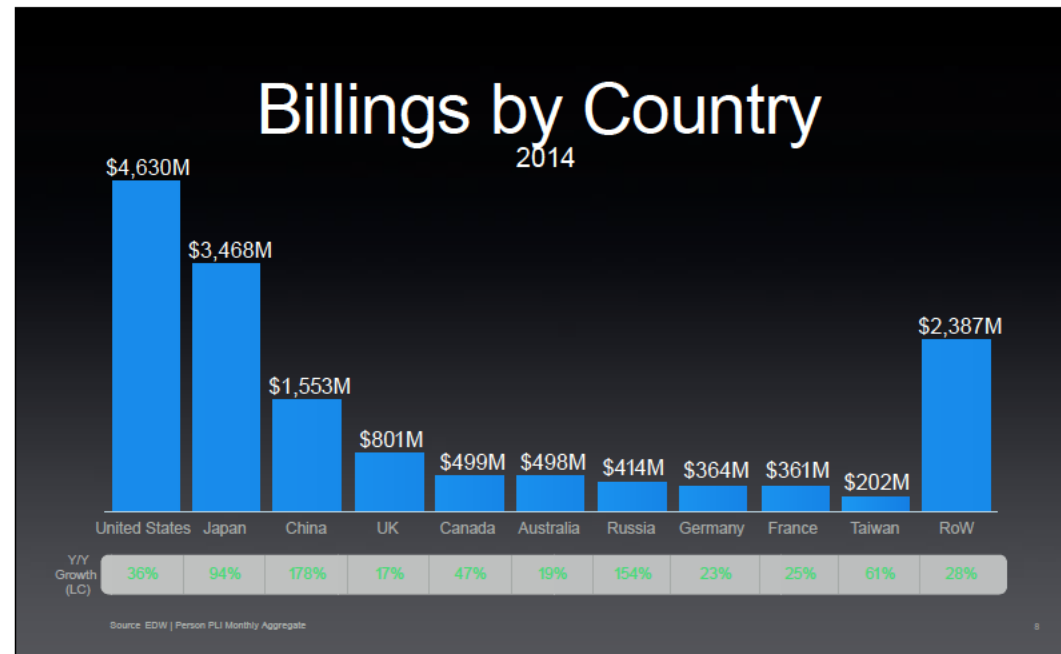
Billings Trend



- From a billings perspective, the past 6 years have been a time of incredible growth
- In Q4 '14, we billed \$4.2B. It was our best quarter yet with billings up 46% Y/Y
- We closed 2014 at \$15.2B, 49% ahead of last year and taking our cumulative billings total to \$36B
- In Q4 '14, International's share of billings at 71%, up from 68% in Q3 '14 and growing at 52% Y/Y. For 2014 International's share at 69%, up from 66% in 2013 and growing at 56% Y/Y



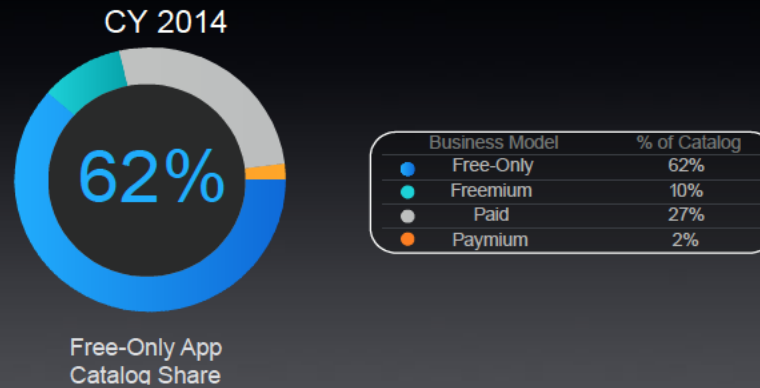
- Zoning in on the regions behind this International growth, we can see that Japan & Korea, China and Pan EMEIA are firmly leading the way, although some of the growth in Pan EMEIA is from Russia currency issues
- Japan & Korea overtook closed 2014 at 78% the size of the US having overtaken the US on a weekly basis 4 times during the course of the year
- Changes in rank since 2013 include Pan EMEIA overtaking ANZ and Pan Asia, Pan Asia overtaking ANZ



- LC = local currency
- China firmly in #3 position
- Germany and France as a result of increased cross-boarder activity, and Taiwan knocking Italy out of the Top 10 (with Korea hot on its heels)

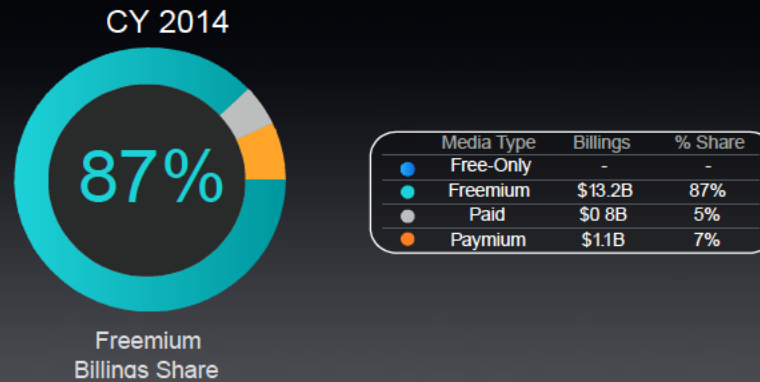
1.4M
Apps in Catalog

Catalog By Business Model

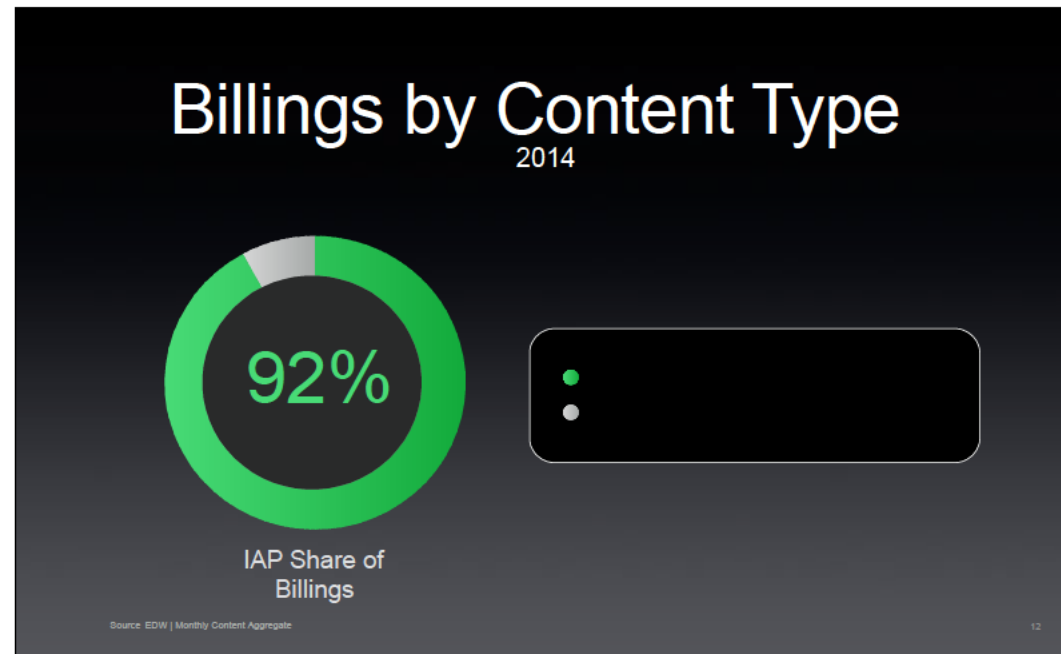


- Paid & Paymium flat Y/Y as # apps
- Free-only # apps up 55% - 600K vs **over 1M apps CY 2014**
- Freemium # apps grew 44%

Billings By Business Model

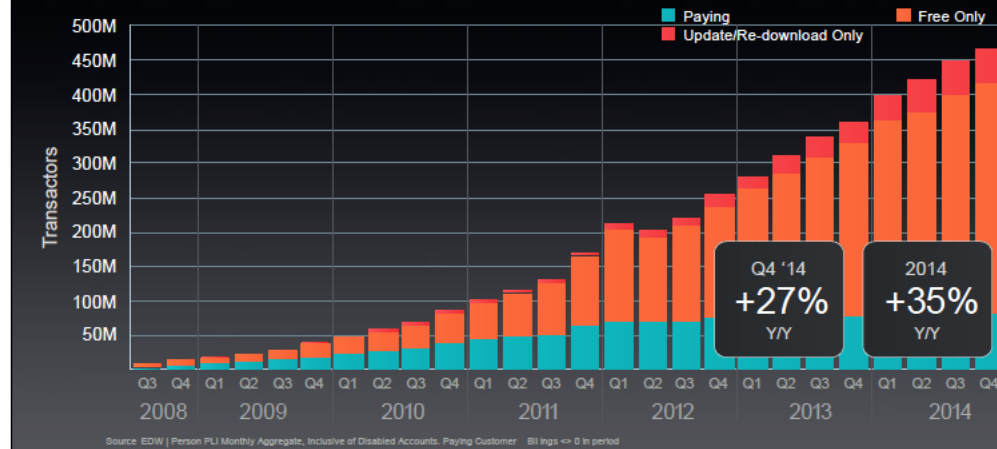


- Freemium continues growing as share of business:
 - CY 2013 → CY 2014
 - 79% → 87%, driven by only 10% of catalog
- Paid
 - 11% → 7%
- Paymium
 - 10% → 5%
-



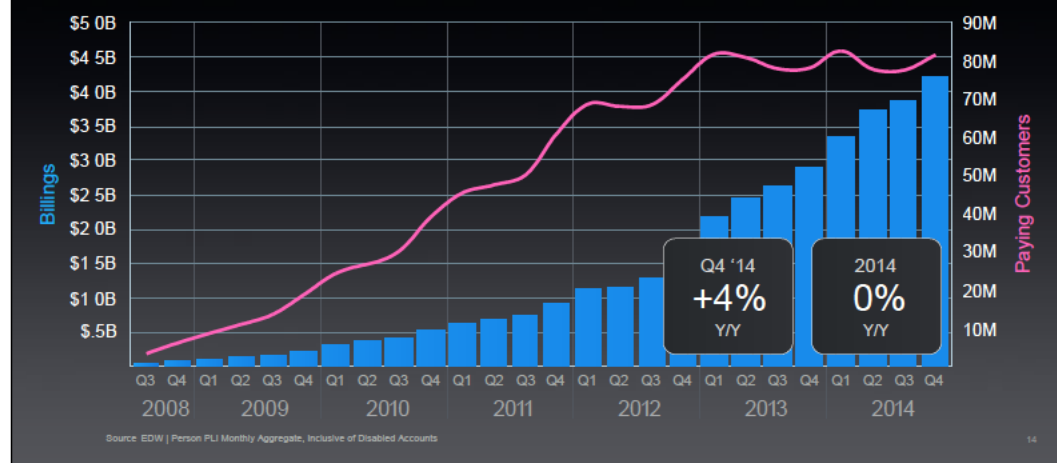
- Across all regions, IAP remains the primary vehicle for spend, accounting for 92% of billings in 2014, up from 85% in 2013 year and growing at a rate of 62% Y/Y
- The Freemium model has been the key contributor here, leading to new records such as Supercell and King's \$2B+ LTD figs
- Paid App billings, meanwhile, have continued their decline, down 49% Y/Y. More on that later in the deck

Transactor Trend



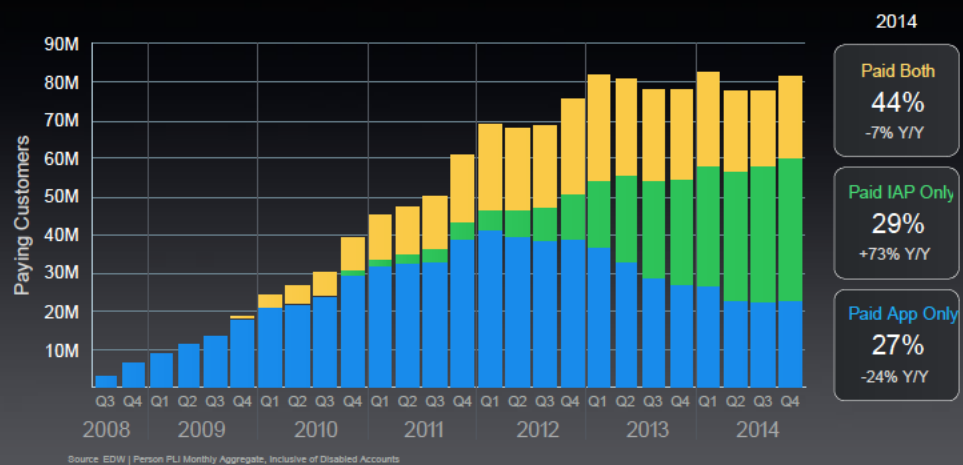
- Y/Y growth rates are based on (Paying+Free Only)
- We've seen phenomenal transactor growth over the past six years
- Update/Redownload Only add around 50M to the top line in Q4 '14, present a better definition of an 'active' customer, and remain a great target for push notifications
- The size of the free transactor base dilutes paying customer trend however

Billings & Paying Customers



- Zoning in on paying customers, it's clear that growth has flattened over the past 2 years (quarterly updates). Billings growth driven by increasing ARPPU.
- Prevalence of quality free content is a great thing for our customers, but can be challenging for the business. Growing paid #'s is a big opportunity.

Paying Customers by Type



- The number of customers paying in-app has not grown at a rate fast enough to offset the drop in customers no longer paying for paid apps

Customers by Region

% of Transacting, 2014



Region	Free Only	Paid App Only	Paid IAP Only	Paid Both
United States	62%	11%	9%	18%
China	90%	1%	6%	3%
Europe	66%	11%	7%	16%
Japan & Korea	70%	3%	15%	11%
Pan EMEA	82%	5%	5%	8%
Pan Asia	87%	2%	6%	5%
LatAm & Iberia	79%	7%	5%	9%
Canada	61%	12%	9%	19%
ANZ	57%	13%	8%	21%
Grand Total	73%	7%	8%	12%

Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

x

- Comments:

- ANZ holds the highest paying customer % on an annual basis, while JP & KR is now ahead on a monthly basis
- ANZ also holds the highest Paid App Only mix

Paying Customers by Region

7-9-2017



Region	Paid App Only	Paid IAP Only	Paid Both	Paying Overall
United States	-9%	47%	-19%	-4%
Europe	-14%	59%	-23%	-8%
Japan & Korea	4%	83%	-28%	26%
China	79%	155%	-40%	71%
LatAm & Iberia	-21%	84%	-41%	-20%
Pan EMEA	-1%	133%	-38%	-1%
Canada	-8%	64%	-18%	-2%
ANZ	-16%	60%	-15%	-7%
Pan Asia	-17%	56%	-37%	-1%
Worldwide	-7%	73%	-24%	0%

Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

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- Certain regions have also started to exhibit significant declines
- LatAm & Iberia has the steepest decline on an annual basis (steepest Paid App Only and Paid Combined declines; Paid IAP Only growth is faster than ANZ's though, which has suffered more in recent quarters/months)

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Paying Customers by Spend

YTD Growth 2014

Region	<\$4.99	\$5-9.99	\$10-49	\$50-99	\$100-499	\$500-999	\$1000+	Overall
United States	-14%	-2%	-6%	7%	18%	33%	58%	-4%
Europe	-18%	-5%	-8%	-2%	10%	24%	47%	-8%
Japan & Korea	15%	22%	23%	23%	38%	57%	84%	26%
China	10%	21%	114%	187%	228%	229%	185%	71%
LatAm & Iberia	-35%	-11%	-15%	-0%	6%	8%	22%	-20%
Pan EMEA	-17%	1%	6%	4%	16%	44%	114%	-1%
Canada	-9%	4%	-5%	4%	11%	29%	59%	-2%
ANZ	-15%	-3%	-6%	-6%	-3%	6%	24%	-7%
Pan Asia	-16%	-2%	1%	8%	22%	41%	52%	-1%
Worldwide	-14%	1%	1%	11%	25%	45%	72%	0%

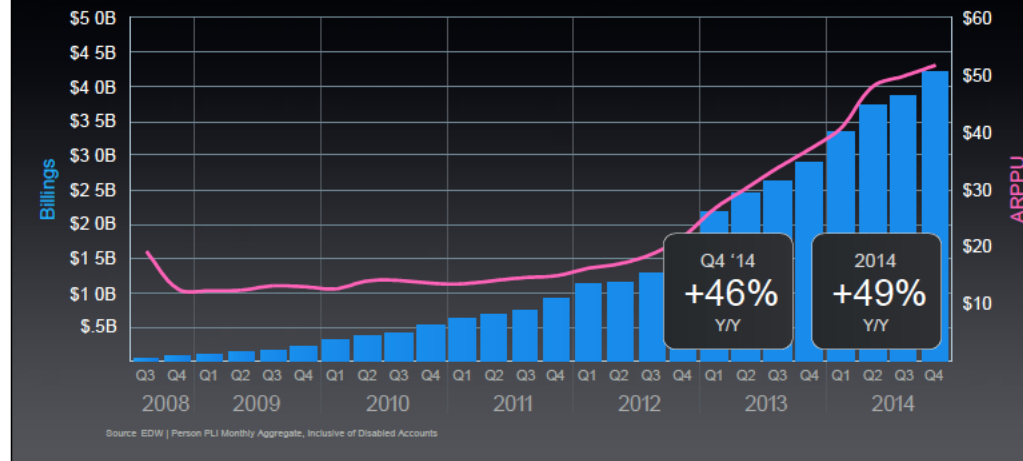
Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

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- Fortunately, at present, the negative paying customer growth generally pertains to the small spend segments, limiting the impact on billings
- With this crude segmentation, it's just the <\$4.99 bucket which is exhibiting negative growth globally. While this is our largest segment of paying customers (28% in 2014), its billings contribution is limited: <1% of the 2014 total

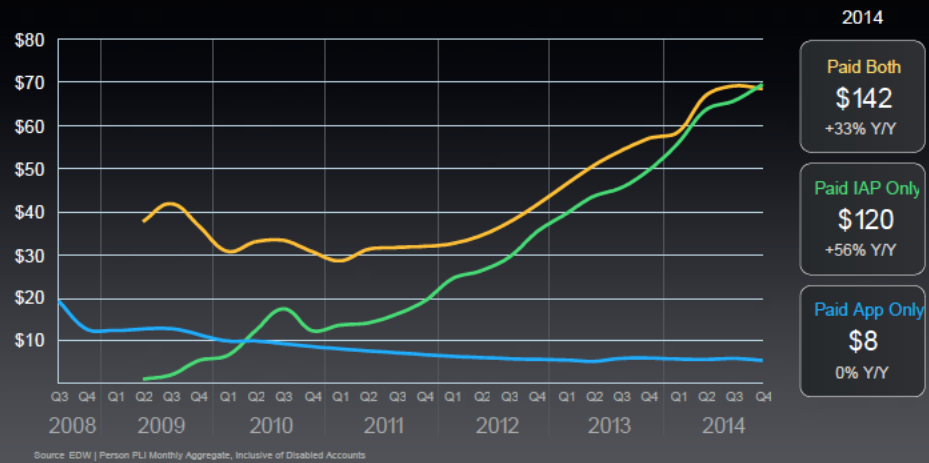
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Billings & ARPPU



- Alongside flat paying customer growth, we've seen ARPPU continue to track upwards

ARPPU by Customer Type



- The growth in ARPPU has been driven by customers engaging with IAP, which overtook the Paid Both segment in Q4

ARPPU by Region

2014



Region	Paid Both	Paid IAP Only	Paid App Only	Overall
Japan & Korea	\$318	\$213	\$8	\$229
Pan Asia	\$241	\$138	\$8	\$152
China	\$200	\$102	\$4	\$122
Pan EMEA	\$135	\$211	\$6	\$122
ANZ	\$136	\$108	\$10	\$92
Canada	\$112	\$126	\$8	\$84
United States	\$121	\$95	\$8	\$82
Europe	\$108	\$71	\$7	\$68
LatAm & Iberia	\$93	\$52	\$7	\$54
Worldwide	\$142	\$121	\$8	\$100

Source: EDW | Person PU Monthly Aggregate, Inclusive of Disabled Accounts

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- Comments:

- The Paid Both segment has the highest ARPPU across all regions except for Pan EMEA and Canada (a result of the aforementioned)

ARPPU by Region

Y/Y Growth, 2014



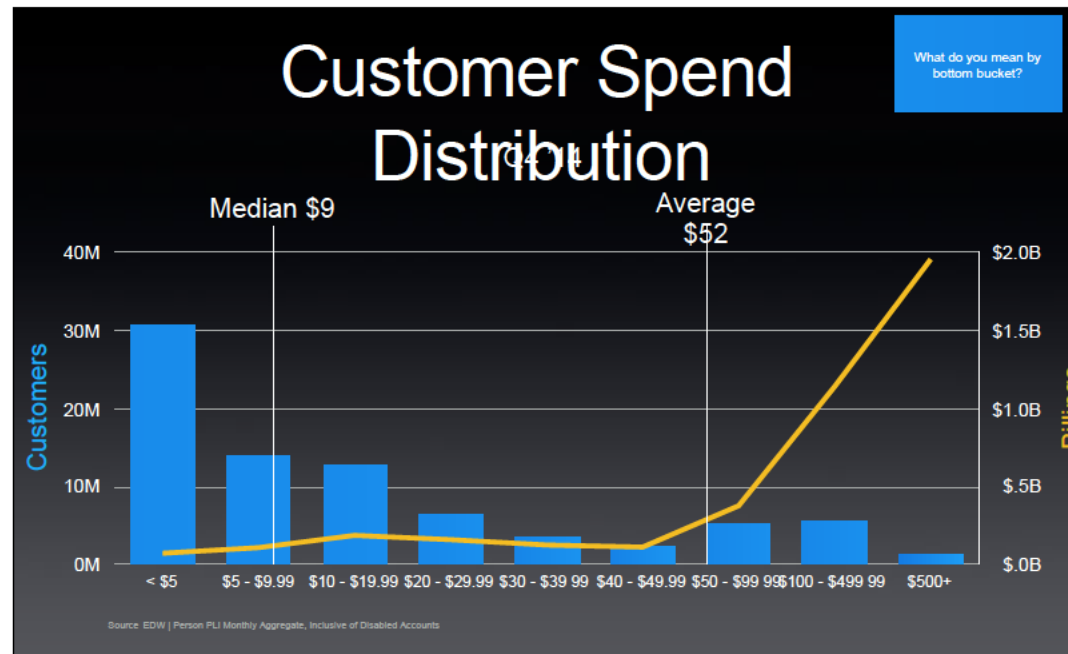
Region	Paid Both	Paid IAP Only	Paid App Only	Overall
Japan & Korea	36%	29%	-4%	38%
Pan Asia	41%	36%	17%	45%
China	38%	32%	-22%	63%
Pan EMEA	23%	269%	7%	100%
ANZ	16%	48%	1%	21%
Canada	18%	100%	-6%	40%
United States	30%	78%	-5%	41%
Europe	24%	52%	2%	31%
LatAm & Iberia	20%	42%	11%	36%
Worldwide	33%	56%	-0%	49%

Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

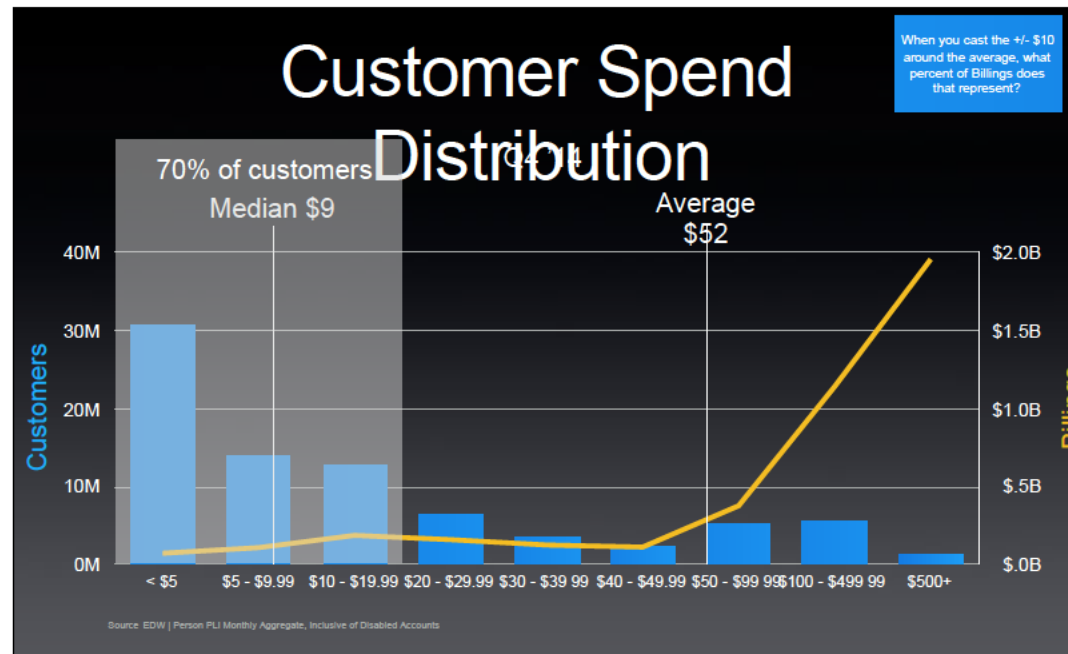
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- Comments:
- US still pulling away from EU with higher Paid IAP Only ARPPU growth

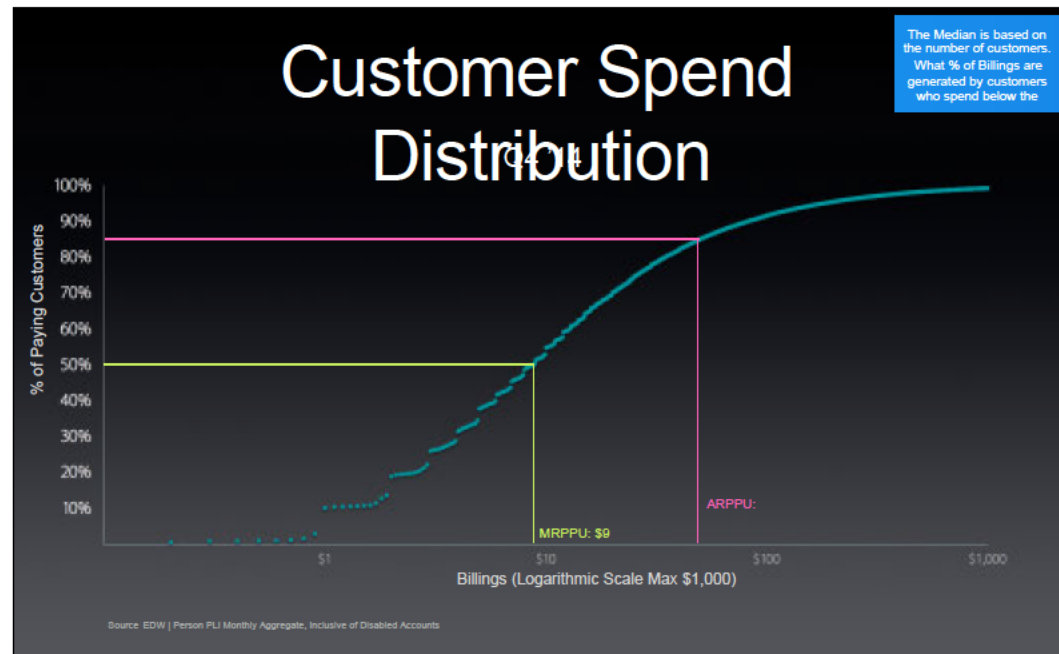
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- skewed:
 - bottom bucket is 38% paying customers / 2% billings
 - top bucket is 2% paying customers / 46% billings



- +/- \$10 around median = 70% paying customers
- same net cast around average = 5% paying customers



- ARPPU is, however, becoming quite skewed by the loss of small spending customers and the fact that we don't have a normal spending distribution. As such, MRPPU may be a more meaningful metric to track the development of the average customer's spend in coming quarters
- To explain how MRPPU differs to ARPPU, both are plotted here on the distribution chart

ARPPU vs MRPPU by Region

Not sure why this is interesting...because the Median is very close in every country?

Region	ARPPU	MRPPU
Japan & Korea	\$106	\$11
ANZ	\$44	\$9
Canada	\$43	\$8
United States	\$41	\$9
Pan EMEIA	\$81	\$7
Pan Asia	\$76	\$10
Europe	\$34	\$8
China	\$61	\$8
LatAm & Iberia	\$29	\$7
World Wide	\$52	\$9

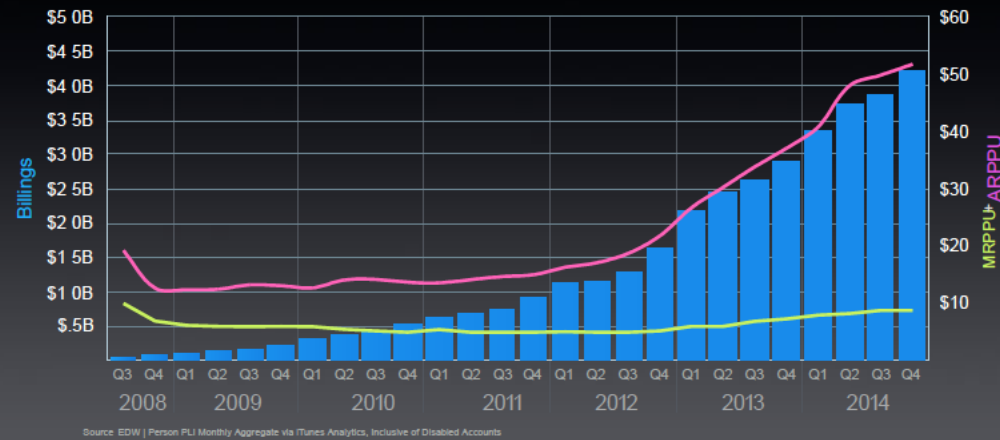
Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

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- It's interesting to compare ARPPU and MRPPU alongside one another by region
- Not only do the numbers feel more meaningful, but we also don't see so much divergence between regions

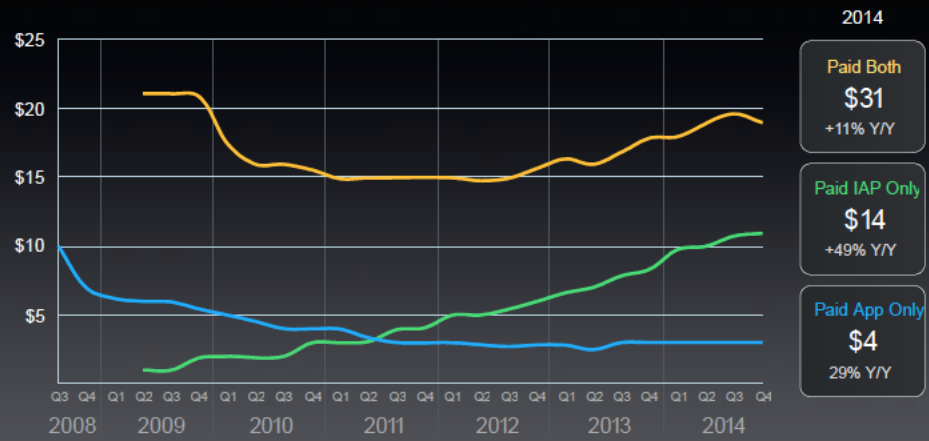
ARPPU vs Median RPPU

Same question here. Is this just mathematically interesting, or relevant to the business in some way?



- It's also interesting to trend ARPPU alongside MRPPU
- MRPPU has exhibited a much smaller rise since the introduction of IAP; this is a great reminder that IAP wasn't the necessarily the model that got the median customer to start spending more

MRPPU by Customer Type



MRPPU by Region

2014



Region	Paid Both	Paid IAP Only	Paid App Only	Overall
Japan & Korea	\$44	\$15	\$5	\$20
China	\$28	\$17	\$2	\$16
ANZ	\$34	\$12	\$4	\$15
Pan Asia	\$35	\$12	\$4	\$15
United States	\$31	\$12	\$4	\$13
Canada	\$28	\$12	\$4	\$13
Europe	\$30	\$10	\$4	\$12
Pan EMEA	\$28	\$9	\$3	\$12
LatAm & Iberia	\$26	\$10	\$4	\$10
Worldwide	\$31	\$14	\$4	\$14

Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

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MRPPU by Region

Y/Y Growth, 2014

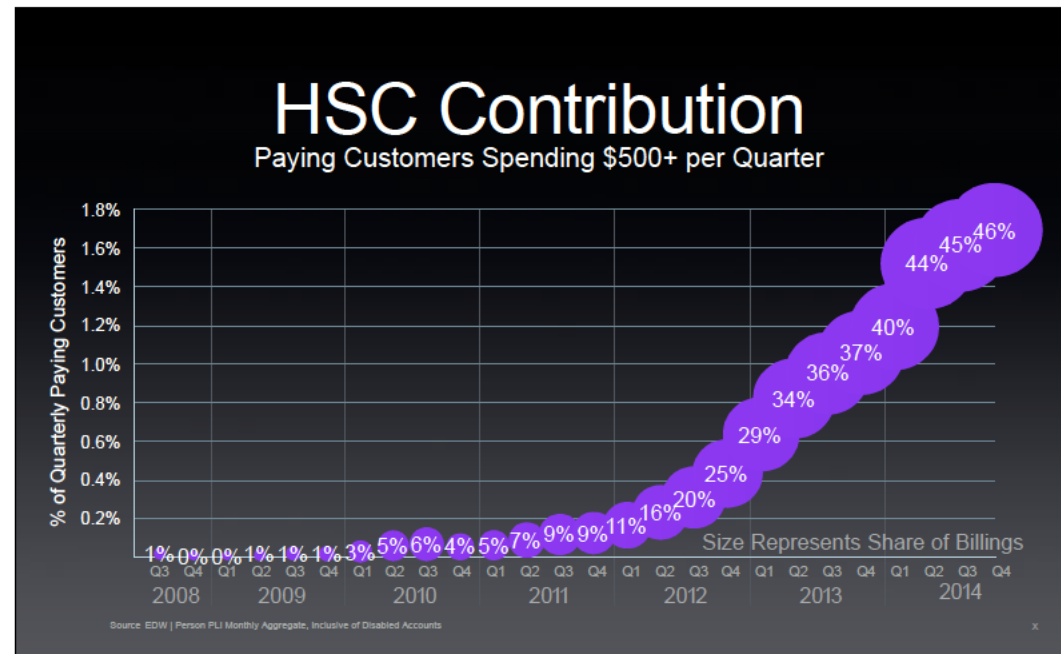


Region	Paid Both	Paid IAP Only	Paid App Only	Overall
Japan & Korea	14%	5%	13%	16%
China	70%	20%	-33%	101%
ANZ	5%	37%	4%	4%
Pan Asia	20%	31%	34%	34%
United States	11%	50%	33%	18%
Canada	2%	35%	-5%	7%
Europe	11%	46%	29%	13%
Pan EMEA	-3%	28%	59%	25%
LatAm & Iberia	13%	58%	88%	26%
Worldwide	11%	49%	29%	26%

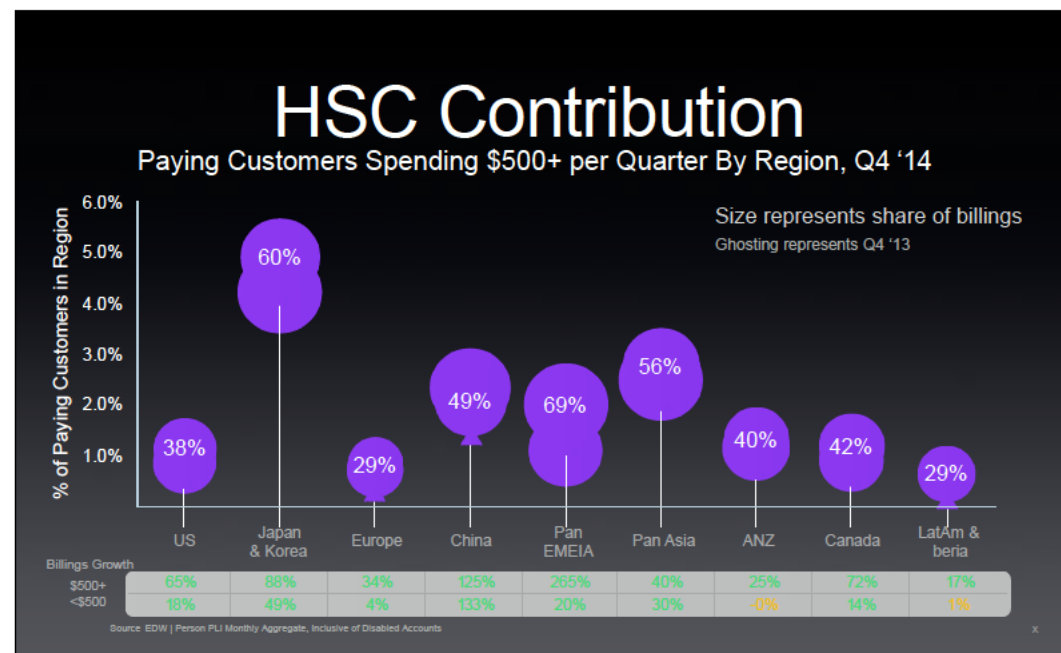
Source: EDW | Person PLI Monthly Aggregate, Inclusive of Disabled Accounts

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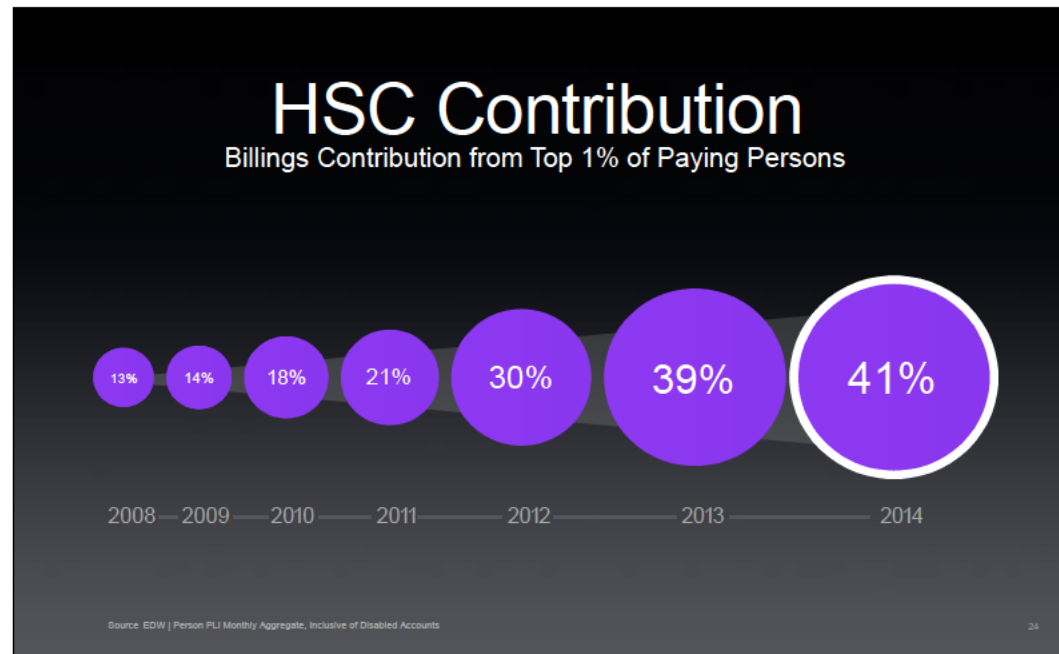
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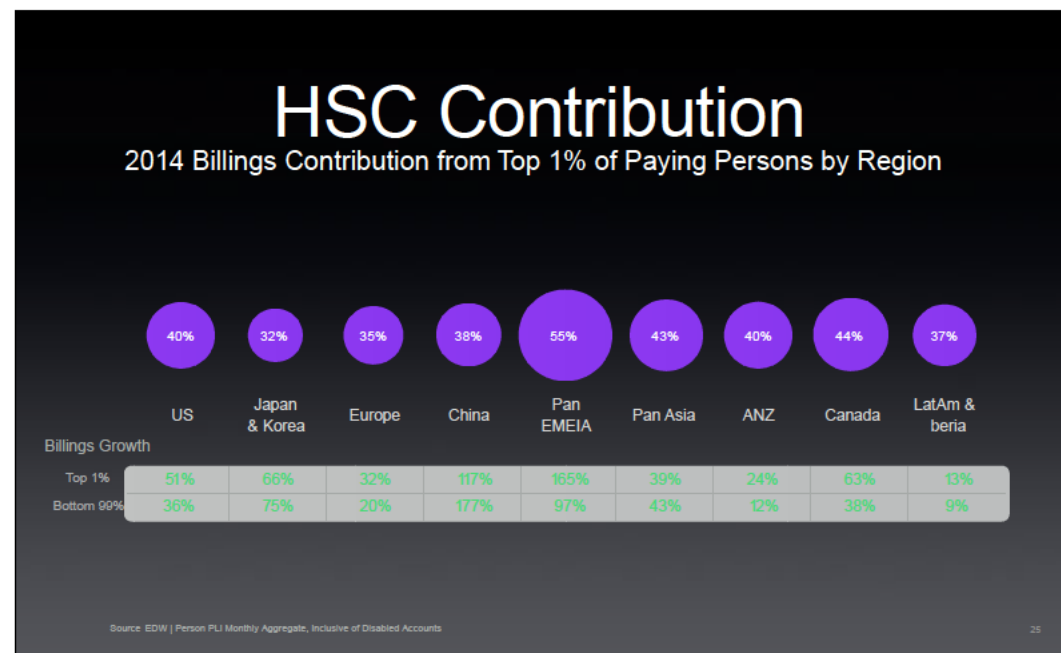
- App Store billings have also become more concentrated than ever before. Looking again at the \$500+ segment by quarter, we can see that in Q4' 14, 1.7% of paying customers drove 46% of the billings



- While high percentages are generally unsettling, we can better gauge the situation by understanding how retentive our \$500+ customers are, understanding the composition of these balloons, and identifying whether customers are supplementing otherwise growing businesses or are disguising shrinking bases (another reason why %s could be high)
- In terms of retention, we've seen in past analyses that our \$500+ customers are actually amongst our most retentive
- In terms of composition, we've seen that the balloons are generally less concentrated than the overall business
- Looking at the Y/Y billings growth figures for the different regions, while our \$500+ customers command a lot of power (e.g. propelling the US ahead of Europe in growth), we can also see that our \$500+ customers are supplementing otherwise growing businesses outside of LatAm & Iberia where the paying customer declines extend into higher spend segments
- This provides some breathing space to tackle paying conversion



- Zoning in on the high spending customers who are helping to inflate ARPPU figures, we can see that App Store billings were more concentrated than ever before in 2014
- The top 1% of spenders in 2014 contributed more than 40% of billings



- While high contributions are generally unsettling, we can better gauge the situation by understanding how retentive our high spending customers are, understanding the composition of these balloons, and identifying whether customers are supplementing otherwise growing businesses or are disguising shrinking bases (another reason why %s could be high)
- In terms of retention, we've seen in past analyses that these 'customers' are actually amongst our most retentive
- In terms of composition, we've seen that the balloons are generally less concentrated than the overall business
- Looking at the Y/Y billings growth figures for the diferent segnemts, we can also see that the Top 1% is in all cases supplementing otherwise growing businesses
- This provides some breathing space to tackle free-to-paying conversion

Top Developers & Apps

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Top Grossing Developers

2014

		Developer	Country of Origin	Billings (US\$)	% of Total	Y/Y
1	↑ 1	Supercell	Finland	\$1605M	11%	88%
2	↓ 1	King	United Kingdom	\$1053M	7%	7%
3	—	GungHo	Japan	\$805M	5%	8%
4	★	Tencent	China	\$785M	5%	925%
5	↑ 1	Naver	Japan	\$423M	3%	128%
6	★	Machine Zone	United States	\$413M	3%	660%
7	↓ 3	Electronic Arts	United States	\$342M	2%	5%
8	★	Mixi	Japan	\$299M	2%	>1000%
9	★	COLOPL	Japan	\$228M	2%	123%
10	↓ 5	Gree	Japan	\$195M	1%	-13%

Source: EDW | Monthly Content Aggregate. Content Provider IDs are aggregated

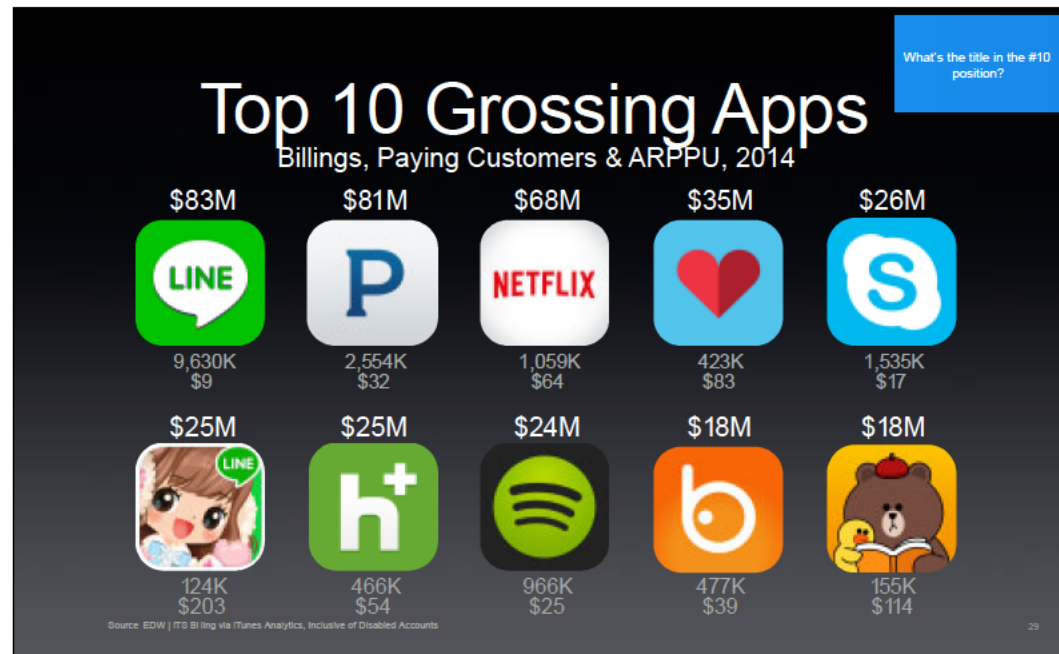
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- Familiar faces in the Top 10 Developers list compared to 2013 with Tencent, Machine Zone, Mixi and COLOPL knocking out Kabam, Gameloft, Zynga and TeamLava and resulting in a total of 5 Japanese developers in the list!
- Combined, these devs contributed 40% of billings
- Y/Y billings gains for 9 of the Top 10
- Mixi and Machine Zone are the biggest movers

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- All of our Top 10 Grossing Apps for 2014 were of course Freemium Games. 27% of Billings.
- Changes from 2013 include GoW, Monster Strike, Boom Beach, Farm Heroes, Legend of Dota and Parkour Every Day
- Note huge gap between # of spenders ARPPU of a title like GoW and Candy Crush Saga.

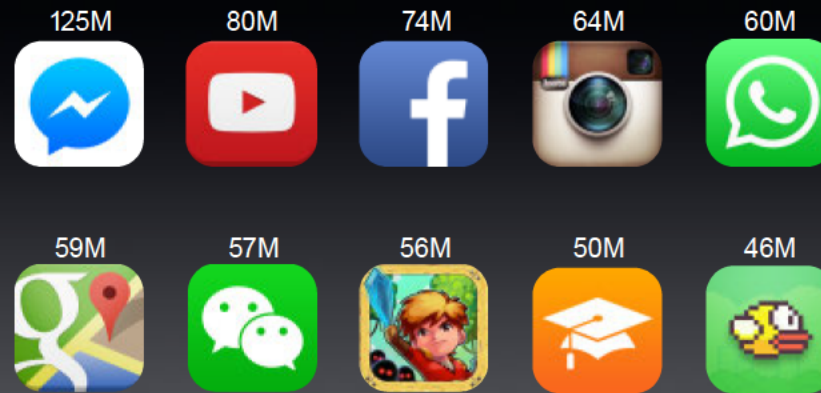


- Half of these: Pandora, Netflix, hulu, Spotify, Zoosk, are subscription apps.

Top 10 Free Apps

Units & Billings, 2014

Can we show top 10 with
iTunes U removed? I also
removed the N/As/ What's
the #8 title?



Source: EDW | ITS Billing via iTunes Analytics, Inclusive of Disabled Accounts

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- sorted by top paid units

Top 10 Paid Apps

Gross Billings & % IAP Billings, 2014



\$49.6M



\$3.2M
\$9M (64%)



\$3.2M
\$6M (48%)



\$2.6M
\$3M (15%)



\$4.0M



\$6.1M
\$7.2M (15%)



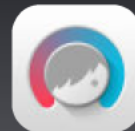
\$1.7M
\$1.8M (5%)



\$4.9M



\$3.2M
\$3.2M (2%)



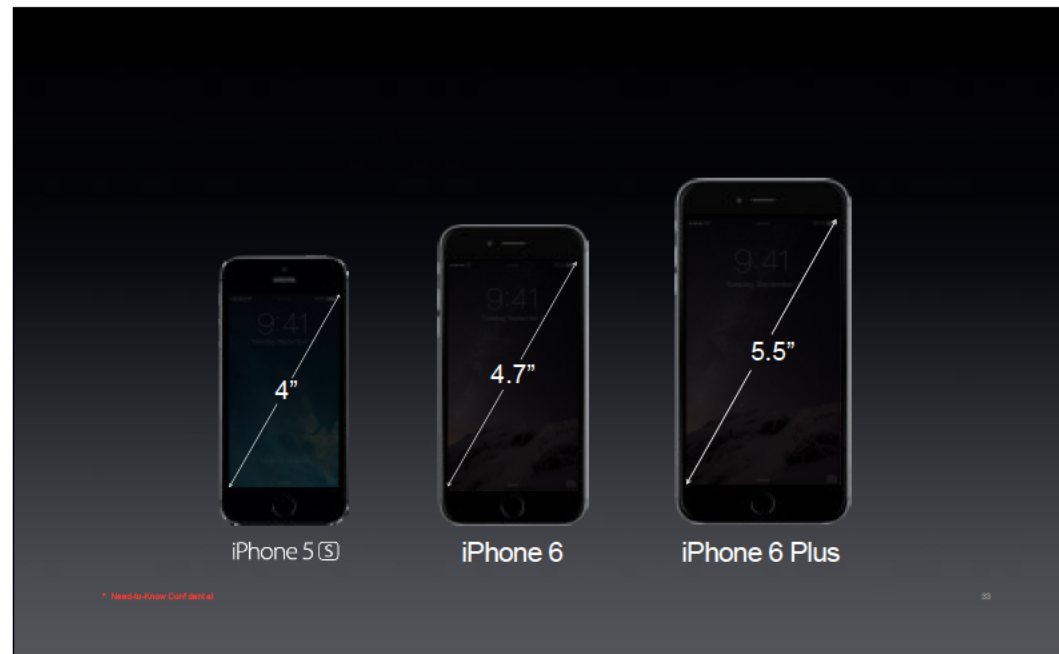
\$4.0M

Source: iTunes Sales

32

- 6/10 are paymium
- total billings (share of IAP)

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With so many new phones and new sizes, how do they transact differently?

Screen Size Analysis

How do customers use devices differently?

What does this slide tell us that we don't already know (that apps are where people spend the most money, and iPad users watch movies and read books)? Also unclear what the red color signifies, particularly on apps for iPhone 5.

	iPad	iPad Mini	iPhone 6 Plus	iPhone 6	iPhone 5S	iPhone 5
Percent of Billings by Device						
% App	76%	85%	68%	59%	59%	52%
% Music	6%	4%	22%	34%	38%	44%
% Movies & TV	11%	7%	7%	4%	2%	2%
% Books	6%	4%	3%	2%	2%	2%

* Need-to-Know Confidential

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- iphone 6+ is between ipad and iphone in customer behavior

Screen Size Analysis: Selected Apps

How do customers use devices differently?

Same comment as previous slide... not sure what this is telling us.

	iPad	iPad Mini	iPhone 6 Plus	iPhone 6	iPhone 5S	iPhone 5
Adobe Reader	5.69	3.85	1.11	0.76	0.61	0.45
Kindle	4.38	4.50	0.92	0.76	0.69	0.75
Netflix	3.02	2.73	0.85	0.82	0.90	1.05
Amazon Instant Video	2.93	2.95	1.56	0.90	0.44	0.38
HBO GO	2.93	2.74	1.45	0.95	0.39	0.33
WATCH ABC	2.54	2.45	1.00	0.91	0.73	0.80
XFINITY TV Go	2.43	1.99	1.47	0.96	0.48	0.46
Hulu Plus	2.22	2.26	1.45	0.87	0.70	0.78
Flipboard	1.51	1.77	1.51	1.03	0.53	0.32
Spotify Music	0.57	0.53	0.78	1.03	1.02	1.03

* Needs-to-Know Confidential

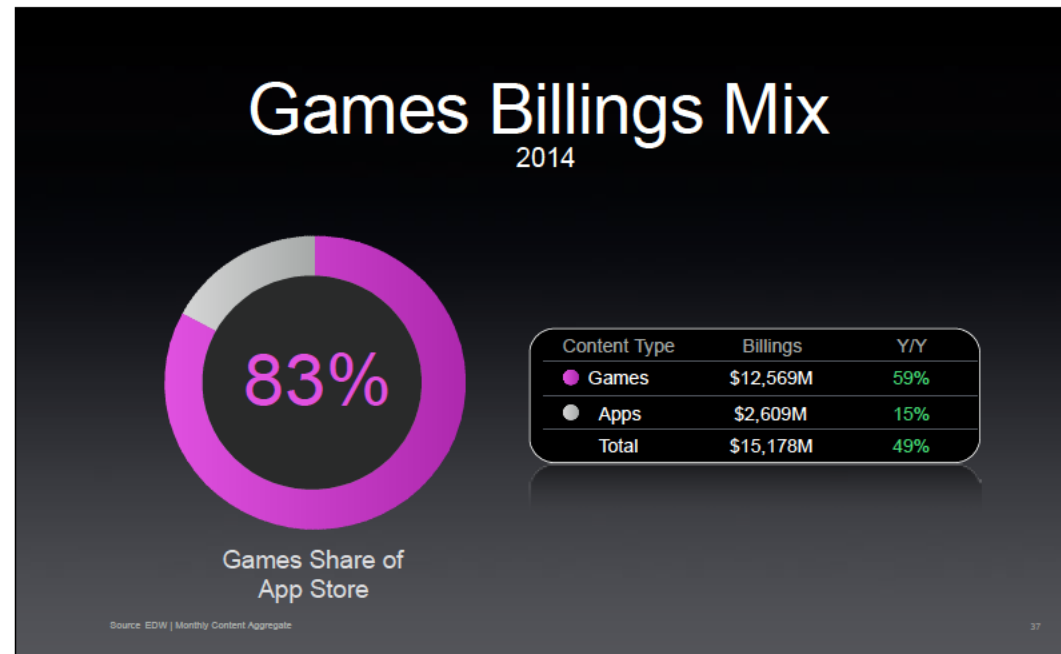
35

US, existing customers. Propensity to download (initial download) e.g. Adobe Reader is 5.7x more likely than the average to be downloaded by an existing customer that just got an iPad

iPhone 6 plus customers have more affinity with iPad customers for certain apps

Categories

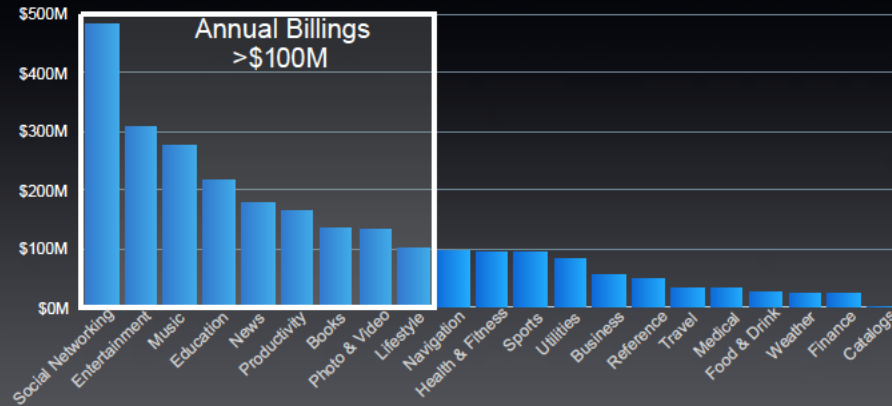
36



- In 2014, Games accounted for 83% of billings, up 5% points since the 2013. It's remained a \$1B monthly business since April '14, and it's where the bulk of our billings growth is coming from
- To put the Apps total into perspective, Supercell and King billed more over the same period than our entire apps Business.

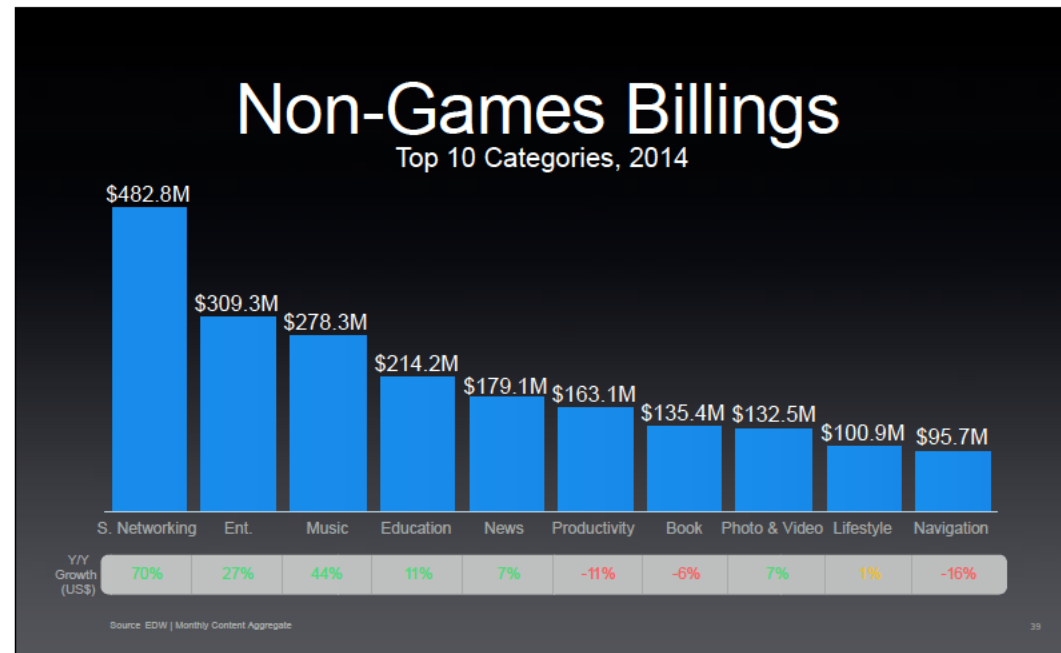
Non-Games Category Billings

CY 2014

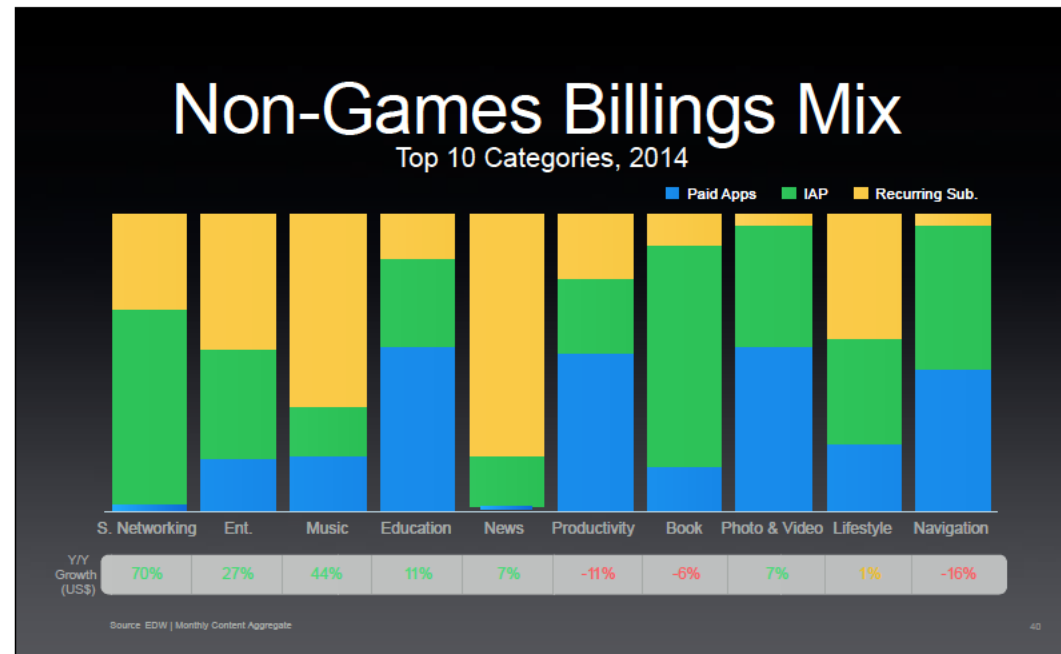


- 9 of 21 categories generated >\$100M this year
- 12.6B is games
- Social networking up 70% Y/Y

PX-2218.48



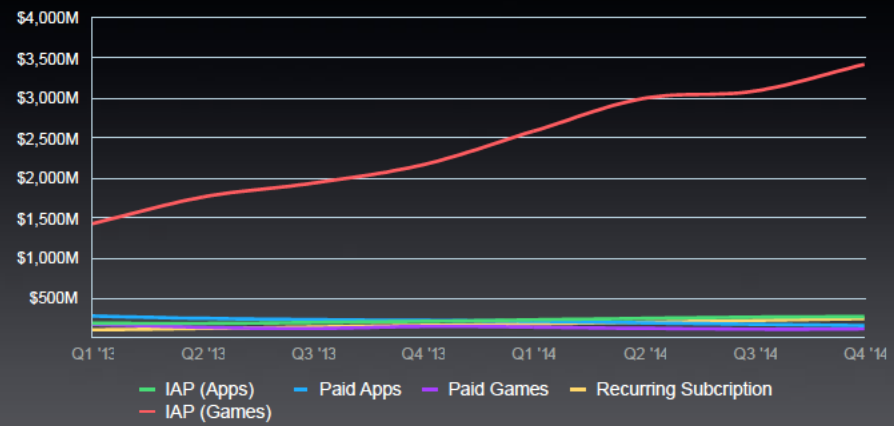
- The top non-games categories for 2014 are Social Networking, Entertainment, Music & Education. Combined, these categories represent 49% of 2014 Non-Games billings
- Notably, Social Networking is growing faster than Games on a Y/Y basis, though keep in mind certain game credits flow through here (e.g. LINE)



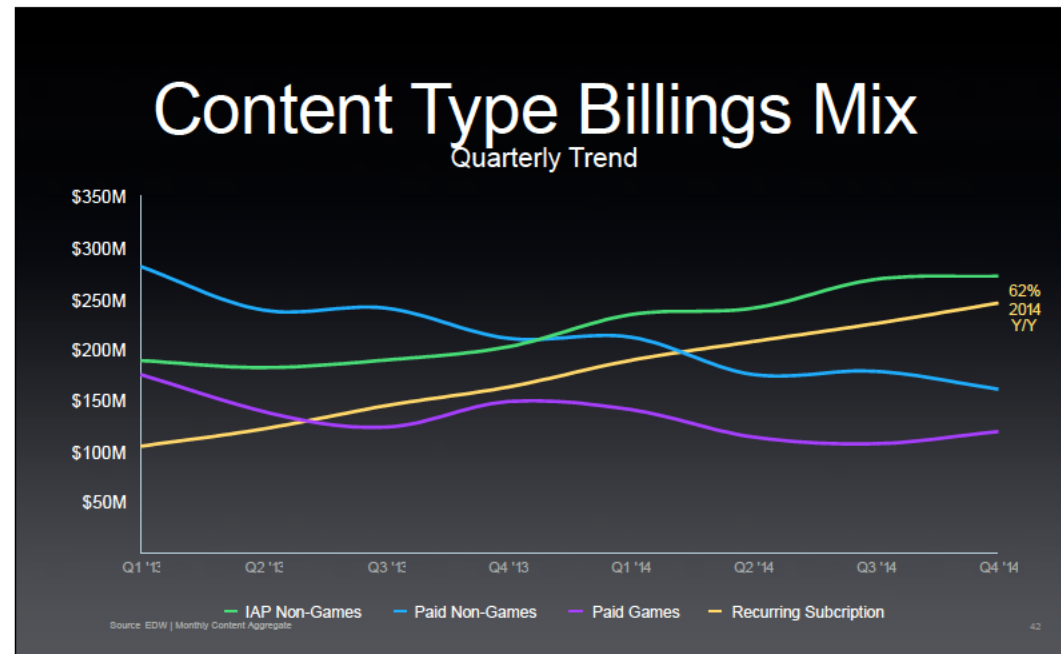
- Of these categories, if we drill down to the content type level to see what we might be able to turn up to boost sales, it's interesting to see the mixes aren't all about IAP: 3 of the T10 non-Games categories still derive more than 50% of their billings from Parent Apps
- What's really started to drive IAP for the app categories, however, is Recurring Subscription, which has made significant inroads across numerous categories — not just those tied to Newsstand (in spite of the model only being allowed for periodicals, business apps, and media apps)

Billings by Business Model

Quarterly Trend



- While a significantly smaller billings driver than In-App for Games...



- Recurring Subscription continues to climb; in some regions we're now seeing it's a bigger billings contributor than the entire Paid Apps business including bundles (LatAm & Iberia, Q4 '14). There's significant headroom here too
- New subscription models with discount starting tiers and a relaxation of App Review guidelines should help here over the coming months

